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# East Asia and the EU: The Unavoidable Partnership

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## Abstract

The bilateral relationship between East Asia and the EU is yet to develop to the same extent that US relations with each of them has. In an international system characterised by the prevalence of transnational threats to international security and the increase in number and growth in number of international institutions, East Asia–EU bilateral relations are becoming an unavoidable partnership. Indeed, relations between East Asia and the EU are becoming increasingly institutionalised as a result of shared interests, sufficient resources and expertise, the development of regional governance in each of them, and interactions at the global level. The case studies of the counter-proliferation of weapons of mass destruction and financial governance regimes show the extent to which these four elements are drawing East Asia and the EU closer to each other. Nonetheless, these two case studies concurrently exemplify the shortcomings of a relationship yet to fulfil its potential. Developing a new, well-functioning region-to-region dialogue only including East Asia and the EU would serve to create a framework for the unavoidable partnership to strengthen.

## Keywords

East Asia; EU; partnership; counter-proliferation; finance

## Introduction

The relationship between East Asia and the EU is often characterised as the weakest link in the East Asia–US–EU strategic triangle. Certainly, links between both of them cannot compete in terms of depth or breadth with their respective bilateral relationships with the US. Yet, as the economic and politico-diplomatic importance of the East Asia–US–EU triangle intensifies, relations between them are becoming increasingly relevant to global dynamics. It seems that East Asia and the EU are moving towards an unavoidable partnership.

Two central characteristics of the current international system underpin the inevitability of cooperation between East Asia and the EU. To begin with, most current threats to international stability are transnational in nature. The incidence of inter-state war has declined dramatically since the end of the Cold War (Tertrais, 2012). For the most part, tensions between states do not lead to confrontations beyond diplomatic spats and—sometimes—short-lived economic retaliation. Meanwhile, issues such as the proliferation of weapons of mass destruction (WMD), financial

crises, climate change, human trafficking or piracy affect a large number of countries. Globalization has weakened borders to the extent that no country is exempt from these inter-state issues.

In addition, the current international system is characterized by a surge in the number of international organisations and—more importantly—their growing relevance to the coordination of global governance. International organisations (IOs) proliferated following the end of World War II (Raustiala, 2012). Nonetheless, Cold War enmity between the Soviet Union and the US severely constrained the work of these IOs for decades. This situation changed following the disintegration of the Soviet Union. Since the early 1990s, many IOs have become more effective discussion forums and decision-making bodies with real power. Certainly, this power still rests upon sovereign states agreeing to implement the decisions taken by IOs. Yet, there is evidence that states are likely to follow through on the commitments made within these organisations (Hurd, 1999). At the very least, IOs serve to bring together officials and experts from different countries. This enhances knowledge-sharing and the diffusion of acceptable behavioural norms.

As a result of the trans-national nature of threats to international security and the proliferation and growing effectiveness of IOs, interactions among East Asian and European policy-makers, officials and civil society representatives have been growing. This has been helped by the launch of the Asia–Europe Meeting (ASEM) and related initiatives from the mid-1990s onwards. It can be argued that links between countries and societies in East Asia and Europe have never been stronger. This underpins the relationship between two regions which together account for over half of the world's GDP.

In this article, I analyse the extent to which a strong Euro–East Asian relationship has become unavoidable. In order to make this argument, I first provide a historical overview of relations between East Asia and the EU up to the present time. I then present two case studies to highlight the extent to which both actors have areas of common concern—one security issue followed by one economic issue. These are counter-proliferation of WMD and financial governance. In the concluding section I will explore the potential for bilateral cooperation as well as the implications for global governance of a strengthened partnership between East Asia and the EU.

### **East Asia–EU relations: Historical overview**

When writing about East Asia, it is first necessary to define the meaning of this term. For the purpose of this article, East Asia is defined as ASEAN+3—that is, ASEAN, China, Japan and South Korea. These countries are forging a regional economic community—especially in the area of financial governance, one of the case studies used in this article. In addition, the thirteen countries have recently started to cooperate in the area of security through the ASEAN Defence Ministers' Meeting-Plus (ADMM-Plus). Launched in 2010, ADMM-Plus only includes ASEAN+3 countries as its East Asian representatives. Thus, it can be argued that ASEAN+3 is starting to foster a security community.

The history of East Asia's relations with the EU can be split into four distinct periods. The first period would encompass from the creation of the EEC in 1957 until 1975. During this period, the EU had a set of bilateral relations with like-minded countries in East Asia. Like-minded countries included those with a market economy and aligned with the US, regardless of whether they had democratic or authoritarian political systems. Thus, the EU formalised diplomatic relations with Japan in 1959, with South Korea in 1963, and with US allies in Southeast Asia throughout the

1950s and 1960s.<sup>1</sup> Relations with countries from the communist bloc were limited to formal contacts within international institutions.

EU–East Asia relations during this period were therefore driven by ideological affinity and, to an extent, economic interest, with EU member states providing economic aid to US allies in East Asia and developing commercial relations with Japan as it became wealthier (Frattolillo, 2013). Washington's set of security alliances in both regions also guided relations between East Asia and the EU. Nevertheless, security dynamics were different between an East Asia characterised by tripolarity and an EU at the centre of American–Soviet bipolarity. Bilateralism based on ideology and economics, therefore, were the drivers of East Asian–EU relations until 1975.

The second period in East Asia–EU relations would run from the establishment of diplomatic relations between China and the EU in 1975 to the launch of the Asia–Europe Meeting (ASEM) in 1996. This period was marked by the normalisation of diplomatic relations between the EU and countries in the region and a strengthening of economic links (Frattolillo, 2013). Brussels started to open up to communist countries as Cold War rivalries subdued and intra-Southeast Asian relations improved—most notably with the expansion of ASEAN throughout the 1990s to eventually include all of its current members. Meanwhile, trade and investment flows expanded as more East Asian countries moved beyond low income status and formerly communist countries started market reforms.

Concurrently, interregionalism emerged as a defining characteristic of relations between East Asia and the EU. In 1977, ASEAN and the EU established a dialogue, reinforced in 1980 with the signing of a Cooperation Agreement (ASEAN Secretariat, 2014). The culmination of this interregionalism process would be the launch of ASEM in 1996. At the time, ASEM was seen as the forum that would bring closer East Asia–EU relations (Camroux & Lechervy, 1996). Bilateral relations were not abandoned, however. Japan and the EU established a bilateral head of government summit in 1991, with China and the EU launching a political dialogue in 1994.

Diplomatic normalization and economic interests therefore drove relations between Brussels and East Asian countries throughout this period. Washington's set of security alliances in the region became less relevant to EU policy. As the European Commission's *Towards A New Asia Strategy* argued, the economic development of the region called for European business to invest and the EU to provide aid (European Commission, 1994). Thus, incipient interregionalism and bilateralism built upon improving political links and economics guided East Asia–EU relations throughout this period.

A third, shorter period in East Asia–EU relations began in 1996, finishing in 2007 with the advent of the Global Financial Crisis (GFC). This period was marked by the strengthening of Sino–European relations, a boom in economic links, and a move away from interregionalism. In 2003, China and the EU signed Brussels' first-ever, formal strategic partnership (Scott, 2007). As such, it realigned East Asia–EU relations, since the latter prioritised one specific relationship over the rest. A multitude of bilateral sectorial dialogues would give shape to this partnership. With regards to East Asia as a whole, bilateral economic relations became stronger year-on-year. Trade and investment flows in both directions grew, and EU aid to less developed East Asian countries remained significant.<sup>2</sup> The strengthening of bilateral links was to an extent the result

<sup>1</sup> See European External Action Service (2014a).

<sup>2</sup> See *ibid.*



of the failure of the ASEAN–EU Cooperation Agreement and ASEM to drive East Asia–EU relations. Most notably, discussion on an ASEAN–EU free trade agreement (FTA) faltered due to Brussels’ refusal to include Myanmar (Weatherbee, 2009). As for ASEM, the addition of new countries from outside East Asia and disinterest both in the EU and East Asia seem to have made this forum decreasingly relevant.

Economic interests and a move towards bilateralism therefore were the main forces behind East Asia–EU relations during this third period. The influence of the US on this relationship waned, and hard security matters had minimum influence on it—if any. The European Commission’s *Europe and Asia: A Strategic Framework for Enhanced Partnerships*, published in 2001, informed these developments on the EU’s side (European Commission, 2001). The difficulties for interregionalism to produce practical results reinforced these dynamics.

The fourth and current period in East Asia–EU relations began with the GFC and its aftermath. This is a period defined by the strengthening of bilateral political and economic relations and the beginning of meaningful cooperation in global governance regimes. With regards to bilateral relations, progress since 2007 has been very quick. Most notably, South Korea–EU relations produced head of government annual summits from 2009 and a Strategic Partnership, an FTA, and a Framework Agreement in 2010.<sup>3</sup> Meanwhile, China and the EU established high level strategic and economic and trade dialogues in 2007.<sup>4</sup> As for Japan–EU relations, they moved forward more slowly, but in 2013 negotiations for a Strategic Partnership and an FTA were launched.<sup>5</sup> Finally, six ASEAN countries—Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam—are either negotiating or having exploratory contacts with the EU to sign bilateral FTAs, and several ASEAN members are discussing Partnership & Cooperation agreements—which Indonesia already signed in 2009.<sup>6</sup>

With regards to global governance regimes, East Asian countries have become more prominent in them, thus boosting the possibility of cooperation. This is particularly the case for China, Indonesia, Japan and South Korea, the region’s four members in the G20. Singapore has also become a more relevant actor in economic and financial regimes (Davies & Green, 2008). With the rise of multi-layered governance—in which global, regional and bilateral layers affect each other—and the strengthening of regionalism in East Asia and the EU, the two of them are poised to interact more often with each other in global governance regimes. Bilateral relations between Brussels and particular East Asian countries would support these regimes. This is already happening in areas including climate change, aviation or the two case studies in this article—counter-proliferation of WMD and finance.

### East Asia and the EU in the counter-proliferation of WMD regime

Proliferation of WMD is a top concern for most states around the world. The European Security Strategy (ESS) issued in 2003 highlighted proliferation as “potentially the greatest threat” to the security of the EU (European Council, 2003). Brussels sees multilateral cooperation in international institutions as one of the means to address this threat (European Council, 2003). Similarly, the Chairman’s Statement published following the first-ever ADMM-Plus summit in 2010 identified

<sup>3</sup> See European External Action Service (2014e).

<sup>4</sup> See European External Action Service (2014c).

<sup>5</sup> See European External Action Service (2014d).

<sup>6</sup> See European External Action Service (2014b).

proliferation a one of several security threats “beyond the scope of any country to handle alone” (ASEAN Secretariat, 2010). Thus, both East Asia and the EU see proliferation of WMD as an important security issue requiring multilateral cooperation to address.

### *Counter-proliferation of WMD regime: main institutions*

Arguably, the counter-proliferation of WMD regime is one of the most successful security regimes ever created, especially in the area of nuclear weapons. The cornerstone in this area is the Treaty on the Non-Proliferation of Nuclear Weapons (NPT). Opened for signature in 1968, it entered into force in 1970 and was extended permanently in 1995 (United Nations Office for Disarmament Affairs [UNODA], 20014a). Its three pillars include non-proliferation, disarmament, and peaceful use of nuclear energy. The treaty has almost-universal membership and from 1975 onwards NPT Review Conferences have been held every five years (UNODA, 2014a). This has allowed the regime to adapt to the evolving threat of proliferation and thus remain relevant. Since the NPT entered into force, “only” three countries have become nuclear powers—India, North Korea and Pakistan. Along with newly independent South Sudan, these are the only countries that are not parties to the treaty. For the most part, proliferation of nuclear weapons has been very limited (Cirincione, Wolfsthal, & Rajkumar, 2005), which points out the success of the NPT.

Another anchor of the counter-proliferation regime is the International Atomic Energy Agency (IAEA). Established in 1957, the IAEA is entrusted with assisting in the peaceful use of nuclear energy, developing high standards for nuclear safety, and verifying the peaceful use of nuclear materials and facilities (International Atomic Energy Agency [IAEA], 2014). Similarly to the NPT, this IO has almost universal membership. Besides some small countries, island states and South Sudan, the only notable exception is North Korea—it withdrew from the organisation in 1994.

Other WMD covered by counter-proliferation treaties are biological and chemical weapons.<sup>7</sup> Both have almost-universal membership—26 countries are not part of the Biological Weapons Convention (BWC), including Myanmar, and only six are not members of the Chemical Weapons Convention (CWC), including, Myanmar again and North Korea. Both conventions aim at prohibiting the development, production, and stockpiling of the respective types of weapons that they cover, with the CWC also prohibiting their use. The BWC and CWC seek the destruction of the weapons that they refer to as well.<sup>8</sup> Proliferation of biological and chemical weapons has been limited throughout the existence of these two treaties (Cirincione, Wolfsthal, & Rajkumar, 2005), indicating their success.

Notwithstanding the accomplishments of the nuclear, biological and chemical weapons treaties and related institutions, the George W. Bush administration launched the Proliferation Security Initiative (PSI) in 2003. Established as a result of the perceived inefficiencies of existing counter-proliferation mechanisms, the PSI introduced interdiction of WMD as one of the principles of the counter-proliferation regime (The White House, 2003). With slightly over 70 participants, membership is far from universal. Nonetheless, all EU member states and nine East Asian countries are part of the initiative (U.S. Department of State [USDOS], 2014b). Despite the secrecy of its operations, it seems that the PSI has reduced proliferation activities (Valencia, 2005).

<sup>7</sup> See United Nations Office for Disarmament Affairs (2014b). UNODA. United Nations Office for Disarmament Affairs. Retrieved from <http://www.un.org/disarmament/> [accessed on 23 July 2014].

<sup>8</sup> Ibid.

*East Asia in the counter-proliferation regime*

A conflict involving the use of WMD in East Asia is extremely unlikely. Nonetheless, East Asian countries are concerned about the possibility of proliferation of WMD from and inside the region. These concerns focus around two countries. The main worry is North Korea, a well-known proliferator and the only country ever to have withdrawn from the NPT (Winters, 2005). Indeed, the PSI was to a large extent established to stop Pyongyang's proliferation activities (Bolton, 2007). Even though it is very unlikely that North Korea will use WMD itself, its proliferation of nuclear technology materials and know-how are considered a serious threat by most if not all East Asian countries.

A second—if smaller—concern is Myanmar. Uniquely for the region, this country is not a party to the BWC or the CWC, as already stated. Arguably more worryingly for other East Asian countries, Myanmar received WMD-related technology from North Korea as recently as 2010 (Ruble, 2014). Even though the country's government has launched an economic and political opening up process, there is no indication that it has given up its WMD programme. Located between China, India and other Southeast Asian countries, Myanmar has long been strategically important. This exacerbates the concerns that other East Asian countries have regarding its WMD-related activities.

In order to deal with these proliferation concerns, East Asian countries have for the most part relied on intra-regional IOs. In the case of the North Korean issue, the four-party talks of 1997–99 and the six-party talks launched in 2003 and discontinued in 2009 have been the main counter-proliferation initiatives (Pacheco Pardo, 2014). The talks are necessary insofar, as above-mentioned, Pyongyang is not part of the NPT or the IAEA. The six-party talks—the most recent consistent initiative to deal with North Korea's nuclear programme—focused on denuclearisation in exchange for a number of inducements, including economic and energy support as well as normalisation of diplomatic relations with the US and Japan (Pacheco Pardo, 2014). Thus, East Asian countries have been willing to accommodate North Korean demands to address proliferation of WMD even if Pyongyang is in non-compliance with the international nuclear non-proliferation regime.

In the case of Myanmar, ASEAN's principle of non-interference in domestic affairs limits the range of possibilities for East Asian countries to deal with its proliferation-related activities (Roberts, 2010). Therefore, there have been no North Korea-style talks to address this issue, nor has it been dealt with through the ADMM-Plus. Nevertheless, concurrently to its opening up process, Naypyidaw has publicly stated that military links with Pyongyang have ceased (Selth, 2011). However, the broader issue of its WMD-related activities remains unaddressed at the regional level.

Meanwhile, there are similarities but also an important difference among East Asian countries in the way that they approach counter-proliferation. East Asia is a keen supporter of multilateral institutions in the areas of nuclear, biological and chemical weapons non-proliferation. Thus, East Asian countries contribute to meetings and initiatives related to the NPT, BWC and CWC.<sup>9</sup> Some of them, such as Japan and South Korea, seem to be more active.<sup>10</sup> But all of them are relatively involved, depending on their resources.

The main divide separating East Asia into two groups pertains to the PSI. Brunei, Cambodia, Japan, Malaysia, the Philippines, Singapore, South Korea, Thailand and Vietnam are all part of the

<sup>9</sup> Ibid.

<sup>10</sup> Ibid.



initiative (USDOS, 2014b), while China, Indonesia, Lao and Myanmar are not. Therefore, there are nine countries in the region that have decided to be involved in the interdiction of WMD. Japan, Singapore and South Korea have been especially active in the PSI, hosting military exercises and meetings (USDOS, 2014a). Since the PSI technically breaches the principle of non-intervention in domestic affairs, participation in the PSI clearly shows which countries are more concerned with countering proliferation of WMD.

### *The EU in the counter-proliferation regime*

Proliferation of WMD is a top concern for the EU, as highlighted in the ESS. Differently from the case of East Asia, this worry does not relate to countries within the region. In the case of the EU, it is in relation to the Middle East and terrorist networks. In the case of the Middle East, there is real fear among EU countries about the possibility of countries in its neighbourhood acquiring nuclear weapons (European Council, 2003). This would increase instability in an already unstable region. The main concern is Iran. Hence, France, Germany, the UK (or the EU-3 as they are known) and the EU itself have held talks with Tehran regarding its nuclear programme since 2003 (Pacheco Pardo, 2011). Iran's nuclear programme, however, is not the only country of concern. Egypt, Syria and Libya—during Muammar Gaddafi's regime—are known to have received WMD from North Korea (Ruble, 2014).

A second important fear for the EU in the area of WMD proliferation relates to the threat that terrorist groups might acquire them (European Council, 2003). A clear example is Hezbollah's links to the North Korean regime and the possibility that it might have acquired weapons from Pyongyang (Pollack, 2011). Terrorism remains a threat throughout many parts of the EU (Europol, 2013). Even though WMD are yet to be used by terrorist groups targeting Western objectives, the fear that they might acquire them persists.

At the EU level, several official documents underpin Brussels' counter-proliferation policy. The most relevant are 'Basic principles for an EU strategy against proliferation of weapons of mass destruction', 'Mainstreaming non-proliferation policies in the EU's wider relations with third world countries', both issued in 2003, and 'Council common position on the universalisation and reinforcement of multilateral agreements in the field of non-proliferation of weapons of mass destruction', published in 2005 (Pacheco Pardo, 2011). At the EU level, these and related documents lay out a policy based on information sharing and capacity-building. Equally relevant, the EU presents a common position in international institutions. A clear example was the common position that the EU drew for the 2010 NPT Review Conference (Pacheco Pardo, 2011). Furthermore, Brussels has a number of bilateral programmes and dialogues with selected partners to increase safety standards or even decommission WMD-related materials (Pacheco Pardo, 2011).

At the global level, the EU has been one of the most active actors in this area. Brussels is very actively involved in IAEA and other IOs, making proposals and working on strengthening implementation mechanisms (Kienzie & Vestergaard, 2013). Member states are also very active in the UN, most notably in the drafting of sanctions on countries which are proliferation concerns—especially Iran and North Korea. France and the UK are very involved in this area as a result of their permanent membership of the UN Security Council (Kienzie & Vestergaard, 2013).

Meanwhile, the EU and all its member states are part of the PSI, as already noted. EU countries have been amongst the most actively involved in PSI initiatives. France, Germany, Italy, Spain



and the UK have been especially supportive of the initiative, for example (Durkalec, 2012). Furthermore, Poland has been very dynamic in the coordination of PSI meetings and infrastructure (Durkalec, 2012). Also, EU member states account for 10 of the 21 members of the PSI coordination body—the Operational Experts Group (Pacheco Pardo, 2011). In summary, the PSI would not exist without EU ideological and material support.

#### **4. East Asia and the EU in the financial governance regime**

From the onset of the re-emergence of financial openness in the 1970s, financial crises resumed (Reinhart & Rogoff, 2009). Crises became very common throughout the 1980s and 1990s, when entire regions—including East Asia—and different countries everywhere around the world suffered them (Reinhart & Rogoff, 2009). Finally, the recent GFC and Eurozone Sovereign Debt Crisis (ESDC) have shown that financial crises can hit several regions at the same time and affect highly developed countries. Having suffered one of the biggest crises prior to the GFC, East Asia is well aware of the risks inherent to financial openness. Indeed, the 1997 crisis was the main catalyst for ASEAN+3 cooperation (Emmers & Ravenhill, 2011). In the case of the EU, the ESDC has led to the creation of its first-ever regional financial safety net in the form of the European Stability Mechanism (ESM) (Fabbrini, 2013). Financial governance to prevent and manage crises is therefore a central concern to both East Asia and the EU.

##### *Financial governance regime: main institutions*

Financial governance is an area in which reaction to crises has shaped the institutional framework. Following the GFC, the G20 has become the main IO to guide financial governance (Cooper, 2010). However, G20 meetings are not convened as often as it would be required for such a complex issue. As a result, most of the practical work in the area of financial governance is carried out by a set of expert-led institutions. The Financial Stability Board (FSB)—launched in 1999 but given new impetus in 2009 as a result of the GFC—is directly linked to the G20 as its main agenda-setting and coordination body (Financial Stability Board [FSB], 2014c). Central bankers, ministers of finance and regulators make up the FSB.

Banking, securities and insurance are the main areas covered by financial governance. Of these three, banking is the area with a better-developed framework. Created in 1930, the Bank for International Settlements has become the host of different banking regulation IOs and initiatives (Toniolo, 2005). The most relevant of these IOs is the Basel Committee for Banking Supervision (BCBS). Created in 1975, the BCBS is the main rule-making, information sharing and monitoring institution in the area of finance (Tarullo, 2008). Crisis prevention and management, liquidity provision, and financial market strengthening are its main goals.

The most important instrument to achieve these goals is the Basel III Accord. Entering into force in 2013, this accord replaced the Basel II Accord of 2004, which in turn replaced the Basel I Accord of 1988. The fact that a third accord was signed reflects the inadequacy of the previous two. The Basel III Accord establishes minimum capital requirements for international banks, a supervisory review process, and market discipline (Bank for International Settlements, 2014). Importantly, the 2013 accord covers banks from many countries that were not covered by the previous two—including several countries in East Asia.

In the areas of securities and insurance, the International Organisation of Securities Commission (IOSCO) and the International Association of Insurance Supervisors (IAIS) were created in 1975 and 1994, respectively. Neither of them were as active as the BCBS prior to the GFC. However, this crisis has empowered them (FSB, 2014b). Their main goals are information sharing and international standards promotion.

Finally, another IO involved in financial governance is the International Monetary Fund (IMF). Its main function is liquidity provision to countries suffering from a liquidity crisis. Nevertheless, the stringent conditionality attached to its loans has made the IMF very unpopular, to the extent that during the 2000s it ran the risk of becoming almost obsolete (Buirra, 2005). It was revived during the GFC and, especially, the ESDC. However, its role became secondary to that of other actors who asked the IMF to contribute to rescue packages rather than to lead them. The creation of other liquidity provision mechanisms such as the New Development Bank launched by the BRICS in 2014 or regional initiatives—of which more below—have diminished the role of the IMF.

### *East Asia in the financial governance regime*

The 1997 financial crisis that struck East Asia affected all countries in the region—most notably Indonesia, Malaysia, South Korea and Thailand. The causes and behaviour of the IMF during the crisis were the main drivers of subsequent approaches to financial governance by countries in the region. With regards to the causes explaining the crisis, the two main immediate ones were a sudden withdrawal of foreign capital and the collapse in the value of local currencies (Wade, 1998). The withdrawal of foreign capital could not be addressed through the use of central bank reserves, which helps to explain their huge increase since then (Aizenman & Lee, 2008). As for the collapse in the value of local currencies, it led to the inability by many private companies to repay dollar-denominated debt instruments. (Wade, 1998) The launch of Asian Bond Markets Initiative (ABMI)—a regional initiative—was the direct effect to this problem.

Without recourse to other sources of capital, Indonesia, South Korea and Thailand resorted to IMF bailout packages. These packages, however, came with stringent conditions attached. For many, these conditions exacerbated the effects of the crisis (Haggard, 2000). As the IMF later admitted, the conditions should have focused “on the problems at hand” rather than trying to deal with other issues (International Monetary Fund [IMF], 2013). Avoiding reliance on the IMF has been an important driver of East Asia’s financial regionalism since the 1997 crisis.

Regional financial governance is well developed in East Asia. Liquidity provision, directly related to the just-discussed role of the IMF in aggravating the 1997 crisis, is one of the areas in which regional governance is well established. Launched in 2003, the Chiang Mai Initiative was multilateralised in 2010. The Chiang Mai Initiative Multilateralisation (CMIM) pools together the financial resources of ASEAN+3 countries. All of them can borrow from the CMIM if suffering from liquidity problems (Kim & Yang, 2014). Even though only 40% of the borrowed capital is de-linked from the IMF, this IO would have limited power to impose its conditions when providing capital to an East Asian country (Kim & Yang, 2014). Furthermore, the ASEAN+3 Macroeconomic Research Office (AMRO), created in 2011, has a monitoring function designed to prevent liquidity crises (Kim & Yang, 2014). AMRO should eventually become an IO independent from ASEAN+3 countries.

Meanwhile, East Asia has also launched the ABMI and the Credit Guarantee and Investment Facility (CGIF), in 2003 and 2010 respectively, to boost the supply of local currency denominated bonds (Kim & Yang, 2014). Thanks to ABMI and CGIF guarantees, East Asian countries and companies are able to borrow in their local currency. This way, fluctuations in the value of the local currency against the dollar has a more limited effect on the ability of countries and companies to repay their debts.

At the global level, the most important contribution by East Asia has been to the G20/FSB and the BCBS. China, Indonesia, Japan and South Korea are permanent members of the G20, with ASEAN being regularly invited to meetings (Cooper, 2010). The four countries plus Singapore—and Hong Kong—are members of the FSB (FSB, 2014a). Thus, there are up to five East Asian countries plus ASEAN and Hong Kong regularly involved in shaping the framework underpinning global financial governance.

In the case of the BCBS, China, Indonesia, Japan, Singapore and South Korea—plus Hong Kong—are all members. However, China and South Korea (Bank for International Settlements [BIS], 2009b) only became members in March 2009, followed by Indonesia, Singapore and Hong Kong in June of that same year (BIS, 2009a). As a result, East Asia—with the exception of Japan—was not involved in crafting the Basel I and II accords. Differently, East Asian countries contributed to the crafting of the Basel III Accord. In any case, East Asia has only recently been part of the process whereby financial governance rules are set.

### *The EU in the financial governance regime*

The GFC and subsequent ESDC were a shock to the EU. Before them, there was a widely-held belief that financial crises had been eradicated from developed countries, since none had suffered a major crisis for almost twenty years (Reinhart & Rogoff, 2009). Given that the major effects of these two crises were felt by several countries in the recently created Eurozone suffering from capital flight—most notably Greece, Ireland, Portugal and Spain—the main response from the EU focused on avoiding both contagion and another crisis. Therefore, liquidity provision to countries suffering from capital shortfalls was the main preoccupation for the EU.

At the regional level, the European Financial Stability Facility and the European Financial Stability Mechanism were agreed upon in 2010. They provided capital to Eurozone countries suffering from liquidity problems (Fabbrini, 2013). In 2012, the ESM was launched as a permanent IO to provide such liquidity in the future and this way ensure rapid resolution of crises while also avoiding their spread to other countries (Fabbrini, 2013).

There are discussions in Brussels regarding creation of a banking union in the Eurozone which would also be open to other EU member states. The union would include a Single Supervisory Mechanism, launched in November 2014, and a future Single Resolution Mechanism (European Commission, 2014). If successfully and fully implemented, a banking union would enhance financial governance in the EU—or at least in the Eurozone—by regionalising management of the banking sector, thus increasing transparency.

At the global level, France, Germany, Italy and the UK—plus the EU itself—are part of the G20 (Cooper, 2010). The four countries plus the Netherlands and Spain are also part of the FSB (FSB,



2014a). Similarly to their East Asian counterparts, membership of these institutions makes these six countries and the EU central to the establishment of guiding principles for financial governance.

The role of the EU is arguably more important in the BCBS. Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain, Sweden and the UK are all part of the committee (BIS, 2009a). Together with the US, EU member states were the main drivers behind global financial governance since the creation of this institution. Most notably, the Basel I Accord was essentially created by the G10—which included Belgium, France, Germany, Italy, the Netherlands, Sweden and the UK (Posner, 2009). This accord lay out the basis of the capital adequacy requirements principle that still governs global financial governance in the area of banking. Equally relevant, the Basel II Accord was basically the result of negotiations between the US and the EU (Posner, 2009). Supervisory review process and market discipline were added to the principles underpinning the regulation of the banking sector in this accord. Thus, even though other countries contributed to the Basel III Accord during the negotiation phase, the principles were already laid out in previous accords.

### Potential cooperation between East Asia and the EU

East Asia and the EU share their concerns in different areas. Counter-proliferation of WMD and financial governance—the former a security issue, the latter an economic matter—are two examples of these. They prove that there are similarities and some differences in the ways in which East Asia and the EU feel vulnerable to them, as well as in terms of their approach to dealing with trans-national threats. They also show that there are some differences within East Asia. Nonetheless, similarities seem to outnumber differences (see table 1). This suggests that there is great potential for East Asia and the EU to cooperate in the resolution of these and other trans-national threats.

Table 1. East Asia and the EU in the counter-proliferation of WMD and financial governance regimes

Regime		East Asia	EU
Counter-proliferation of WMD	Threats	- Intra-regional states: North Korea & Myanmar	- Neighbourhood: Middle East - Terrorist networks
	Responses	- Regional institutions: Six-Party Talks (not universal) & ADMM-Plus - Divisions regarding participation in all global institutions: universal in NPT/IAEA but not universal in BWC, CWC & PSI	- EU-wide policies - Participation in global institutions: NPT/IAEA, BWC, CWC & PSI
Financial governance	Threats	- Financial crisis - IMF intervention?	- Financial crisis - Crisis contagion
	Responses	- Regional institutions: liquidity provision & local currency denominated bond market development - Participation in global institutions (not universal)	- Regional institutions: liquidity provision & Eurozone banking union - Participation in global institutions (not universal)



Considering the similarities between East Asia and the EU in terms of their approaches to security and economic governance, it is possible to infer different opportunities for region-to-region cooperation. These include capacity-building, monitoring, and regime development at the global level. East Asia and the EU have the necessary human and economic resources to make these happen. The institutional framework, however, is still in the process of developing.

With regards to capacity-building, the 1990s model was based on East Asian “learning” from the EU (Jetschke & Murray, 2012). This model is now obsolete, if it ever existed. Not only are the integration processes in East Asia and the EU different, but this model implied that East Asia had to follow on a blueprint set up by Brussels. However, capacity building based on mutual learning and best-practice sharing is a distinct and workable possibility which should be considered.

Taking the case of counter-proliferation of WMD, China, Japan and South Korea have participated in the Six-Party Talks, and China, the EU-3 and the EU itself are taking part in discussions about Iran’s nuclear programme. The possibilities for East Asia and the EU to share their experiences and link the two issues—as the US has tentatively suggested—are clear. Since both East Asia and the EU agree on the broad goal of eventually reversing the nuclear programmes of North Korea and Iran, sharing their experiences would be a win-win situation.

Moving beyond specific issues, East Asia and the EU can engage in capacity building by examining their distinct experiences at the regional level. ADDM-Plus and EU-wide cooperation are different approaches to counter-proliferation which nonetheless can serve for East Asia and the EU to learn from each other. Brussels can share its knowledge on trust-building and the necessary bargaining process involved in joint policy-making. For their part, East Asian countries can share their experience in trying to accommodate the presence of outside powers—including the US and Russia—that might be able to contribute to intraregional discussions.

In fact, financial governance is an area in which East Asia’s and the EU’s regional IOs have already started mutual capacity-building. The directors of AMRO and the ESM are in regular contact, and their officials interact in global institutions.<sup>11</sup> Even though cooperation between both may seem logical, it is not always the case that regional institutions support each other.

Monitoring is a second possibility for East Asia and the EU to cooperate. More specifically, the sharing of information collected through monitoring activities. Indeed, the sharing of some information already takes place within global institutions and at the EU-East Asia country bilateral level. Nevertheless, the sharing of information collected through monitoring could be institutionalised. Most notably, proliferation of WMD from North Korea to the Middle East is perceived as a threat both in East Asia and the EU. However, there is no region-to-region framework for information to be regularly exchanged.

The case of financial data monitoring also shows the unfulfilled potential for cooperation. Given the interconnectedness of financial systems across regions and the fact that there is an overlap between the end of the business day in East Asia and its beginning in the EU, information sharing through the G20/FSB and the BIS/BCBS should be supplemented by a region-to-region mechanism. Since, for example, regular contacts between AMRO and the ESM already exist, it would be possible to institutionalise them and create a more permanent institution.

<sup>11</sup> Author’s interview with AMRO official, Singapore, 26 September 2013.

Arguably, governance regime development at the global level is the area in which cooperation between East Asia and the EU would be easiest to implement. To begin with, both of them are already members of global governance institutions—or at least some countries in each of them are in the case of financial governance. Furthermore, several East Asian and EU countries have an active role in multilateral institutions. Therefore, they could build on existing cooperation to help to further develop global governance regimes.

This further development could be based upon two pillars. To begin with, a working region-to-region dialogue in which to come up with new proposals. For example, since both East Asia and the EU are or have been involved in dealing with countries of proliferation concern and have suffered from financial crises, their similar experiences would be useful to discuss negotiation and prevention mechanisms, respectively, at the global level. A second pillar would be taking a leading role in the creation of well-functioning monitoring mechanisms at the global level. The IAEA and the BCBS already have monitoring responsibilities in the areas of nuclear proliferation and finance, respectively. However, as the cases of North Korea, Iran or financial crises show, these have not worked properly.

Ultimately, cooperation between East Asia and the EU in the areas of capacity-building, monitoring, and regime development at the global level need an institutional framework to work properly. ASEM has proved unable to play such a role. The presence of too many members and disinterest on the part of East Asia and the EU explains this inability. Bilateral dialogues between the EU and specific East Asian countries, meanwhile, are very valuable and should not be discontinued. Nonetheless, they create a fragmented framework without an overarching structure.

Development of an East Asia–EU dialogue would solve the limitations currently imposed by the inadequate ASEM and bilateral frameworks. ASEAN+3 is evermore institutionalised; since the Lisbon Treaty entered into force in December 2009, the EU is moving towards a truly common foreign and security policy in many areas. Therefore, it is not an overstretch to think that East Asia and the EU could have a region-to-region dialogue on which to base EU–East Asia country bilateral relations.

Meeting on a regular basis, the region-to-region dialogue could serve as the structure for multiple sectorial, lower-level dialogues to take place. This is the framework on which the EU–China and EU–South Korea relationships are based.<sup>12</sup> A region-to-region dialogue would be a cost-effective means for East Asia and the EU to discuss issues on which broad agreements exist. Issues requiring deeper discussions could still be dealt with at the bilateral level.

### *The unavoidable partnership*

Transnational threats and the growing number and importance of IOs underpin the increasing importance of global governance regimes. These regimes include multiple layers. As the cases of counter-proliferation of WMD and financial governance show, East Asia and the EU are two regions in which the regional layer is well-developed. They are also two regions actively involved in the global layer.

The above explains why East Asia and the EU would need to establish well-functioning region-to-region cooperation. Creating an institutionalised region-to-region dialogue would be an important

<sup>12</sup> See European External Action Service (2014a).

step in this direction. Such a dialogue would provide the structure for East Asia and the EU to engage in capacity-building, monitoring, and regime development at the global level. A region-to-region dialogue would still allow for bilateral dialogues to exist.

It seems clear that the relationship between East Asia and the EU can be characterised as an unavoidable partnership. Shared threats and interests, sufficient expertise and resources, and regular interactions already underscore existing and possible cooperation between both. Transforming this cooperation into a partnership seems a logical next step.

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